



---

## THE BENEFITS OF LIFECYCLE FUNDS & PERSONAL RETIREMENT ACCOUNTS

---

On August 1, the Thrift Savings Program (TSP), a personal accounts retirement program available to all federal government employees and members of Congress, announced that “life cycle funds” are now available to TSP participants.

As part of a comprehensive plan to strengthen Social Security, President Bush proposes to give younger workers the option to invest a portion of their payroll taxes in voluntary Personal Retirement Accounts. An important investment option in the President's plan is a life cycle fund that simplifies investment for new investors and increases security for workers nearing retirement.

President Bush has indicated that life cycle funds would be an essential part of any Personal Retirement Account within Social Security.

- **Life cycle funds pick the right investment for your age.** When a worker is younger, the Life Cycle Fund invests in a broad mix of bonds and stocks that historically provide a higher long-term return. As a worker moves closer to retirement, the life cycle fund protects the retirement nest-egg by automatically adjusting to more conservative investments, such as corporate and Treasury Bonds. This reduces the chances that a stock market decline on the eve of retirement would harm a worker's retirement income.
- **Life cycle funds protect new investors.** Social Security reform would create millions of new investors. Life cycle funds would make personal accounts easy for new investors by automatically choosing investments that are appropriate for the worker's age.
- **Life cycle funds are becoming more and more popular with managed retirement plans like 401(k)s.** According to a 2003 study by human resource firm Hewitt Associates, 55% of defined contribution plans now use Life Cycle Funds.
- **Younger workers already belong to the investor class.** Younger workers today are more familiar with investments than previous generations. Through 401(k) plans offered by employers across the country, workers know the power of compound interest and how their contributions to these accounts can grow steadily over time.
- **Personal retirement accounts and life cycle funds provide younger workers with real money.** For example, a married police officer and nurse, working their entire life, could build a nest egg of approximately \$670,000 in addition to their traditional Social Security benefits. Those earnings could be used as the retirees saw fit, and unlike today's benefits, could be left as an inheritance to loved ones. As younger workers, their investments would be allowed to grow. As older workers, their investments would be protected.
- **For many families, Social Security provides their only source of retirement income.** Over the course of their lifetime, they do not have the opportunity to save, invest, or build a nest-egg. Personal Retirement Accounts would allow them to build savings for themselves and their families. Life Cycle Funds would help secure it.

###